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STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

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TO: Participating Schools and Lenders

FROM: Diane Todd Sprague, Director

DATE: July 17, 2007

SUBJECT: Educational Loan Notes

MORE BORROWERS BENEFITING FROM REHABILITATIONS

According to a report recently released by the U.S. Department of Education (ED), the nation's guaranty agencies and their collection vendor partners have helped tens of thousands more borrowers achieve loan rehabilitation this federal fiscal year (FFY) compared to the same period last year. Borrowers achieving loan rehabilitation regain Title IV eligibility and the associated benefits, including access to new loans, reinstatement of interest subsidies (where applicable), and access to helpful repayment options like deferment and forbearance. Borrowers also have negative default information expunged from their credit reports, thereby improving credit scores. Totals for the first seven months of the current federal fiscal year indicate that nationally FFELP participants have returned nearly $1 billion in defaulted loans to a non-default status through loan rehabilitation, compared to just over $520 million for the same period last year. The Michigan Guaranty Agency (MGA) saw a 60 percent increase in rehabilitated defaulted loans over this same period.

The significant growth in rehabilitation recoveries is directly tied to Federal Family Education Loan Program (FFELP) industry-proposed changes to the loan rehabilitation program that were included in the Higher Education Reconciliation Act of 2005. Specifically, defaulted borrowers are now able to benefit from this borrower-friendly program by making nine on-time payments during ten consecutive months instead of the prior requirement of 12 consecutive, on-time monthly payments. These changes went into effect one year ago, on July 1, 2006. MGA has seen an increase of 62 percent in borrowers achieving rehabilitation in the year since this new eligibility went into effect. National total loan rehabilitations for FFY 07 are estimated to exceed $1.6 billion, easily surpassing last year's record rehabilitation recoveries of $1.2 billion and equating to an increase of over 33 percent.

INSIDE THIS ISSUE

UPDATED INTEREST RATE INFORMATION FOR VARIABLE RATE PLUS AND SLS LOANS

Attached to this issue of *Educational Loan Notes* is the interest rate table for variable interest rate PLUS and SLS loans that are indexed to the one-year constant maturity Treasury yield. This table was included in the interest rate tables published in the June issue of *Educational Loan Notes* and has now been updated with the recently released one-year constant maturity rate.

Existing variable rate PLUS and SLS loans made prior to July 1, 1998, are calculated from the weekly average of the one-year constant maturity Treasury yield for the last calendar week ending on or before June 26 of each year. The weekly average of the one-year constant maturity Treasury yield for the last calendar week ending on or before June 26, 2007, is **4.95** percent.

Lenders and lender servicers are reminded not only to use the new rates for loans originated on or after July 1, 2007, but also to update all existing Stafford, PLUS, and SLS variable rate loans to the new rates that became effective on July 1, 2007.

If you have any questions please contact Pat Fromm at 1-800-642-5626, extension 36076, or via email at frommp@michigan.gov.

SPECIAL ALLOWANCE RATES

The Special Allowance Rates for the quarter ending June 30, 2007, were recently released by the U.S. Department of Education. The average of the 91-day Treasury bills auctioned during the quarter ending June 30, 2007, is **4.90** percent. The average of the bond equivalent rates of the quotes of the three-month commercial paper (financial) rates in effect for each of the days in the same quarter is **5.38** percent.

The Office of Federal Student Aid has made available details regarding the bond equivalent rates and the special allowance rates through their Web site at http://www.ifap.ed.gov/ffelspecrates/attachments/SAPmemo070307.pdf.

If you have any questions please contact Pat Fromm at extension 36076 or via email at frommp@michigan.gov.

MAPPING YOUR FUTURE REPLACES STAFFORD ENTRANCE AND EXIT POSTCARDS WITH LEAFLETS

Mapping Your Future (MYF) now offers Stafford entrance and Stafford exit leaflets to help schools communicate with students, having replaced the Stafford entrance and Stafford exit postcards. The leaflets, which can be inserted in award letters or other mailings and distributed through the financial aid offices, have greater flexibility for delivery, more room for additional instructions, and lower weight for reduced postage costs.

The leaflets include all of the information that was listed on the postcards, and because there is more room on the leaflets, additional information has been added, such as the requirements to complete counseling and assurances about the security of the process. The leaflets are printed on medium-weight paper and are 3 ½ inches x 8 inches (similar in size and shape to a billing insert).

Eventually, MYF will replace other postcards with leaflets for these counseling types:

1. Perkins entrance counseling
2. Perkins exit counseling
3. Stafford and Perkins entrance counseling
4. Stafford and Perkins exit counseling

The new entrance and exit leaflets may be ordered via MGA's Web site at mgaloan.com by choosing "Financial Aid Professionals" from the left navigation bar, followed by the "Ordering Supplies" tab.

HIGH SCHOOL COUNSELOR VIDEO CONFERENCE

The 2007 High School Counselor Video Conference will be held on Friday, November 2, from 9:00 a.m. - 12:00 p.m., and will be broadcast live from the WKAR public television studio located at Michigan State University in East Lansing. The video conference is co-sponsored by the Student Financial Services Bureau and the Michigan Student Financial Aid Association (MSFAA). All registration materials will be available in September.

Below is a partial list of schools that are host sites for the video conference:

Adrian College
Alpena Community College
Baker College - Muskegon
Bay De Noc Community
Central Michigan University
Copper Country ISD
Eastern Michigan University
Kalamazoo Valley Community College
Lake Superior State University
Michigan State University
North Central Michigan College
Northern Michigan University
Northwestern Michigan College
Saginaw Valley State University
Southwestern Michigan College
Wayne State University

Updates to this list and other information pertaining to the video conference will be posted on the Student Financial Services Bureau Web site at michigan.gov/studentaid. Select the tab labeled "Prospective Students," and click on "High School Counselors." For questions please contact Peggy LaFleur via email at lafleurp@michigan.gov or by telephone at extension 38319.

NSLDS REPORTING REMINDER

Federal law requires lenders and lender servicers to report all status changes throughout the life of a loan to their guarantors. MGA encourages its lenders to report status changes on a monthly basis. It is crucial that loan information is updated and reported in a timely manner so MGA loan data will match the information on the lender's system. This will ensure that the information sent to the National Student Loan Data System (NSLDS) is accurate.

Status changes to report include, but are not limited to:

- Enrollment status changes.
- Cancellation of all or a portion of the loan.
- Loan sales or transfers.
- Disbursement date changes.
- Date loans enter repayment.
- Loans that have been paid-in-full or consolidated.

Forms currently used by lenders to report changes are:

- Loan Maintenance form.
- Borrower/Student Personal Information form.
- Sub/Unsub Reallocation form.
- Disbursement Change form.
- Loan Change form.
- Loan Transfer form.
- Social Security Number Change form.

These forms may be ordered via MGA's Web site at mgaloan.com by choosing "Financial Aid Professionals" from the left navigation bar, followed by the "Ordering Supplies" tab.

"ED" PIPELINE

Dear Partner
June 2007
ANN-07-13

This letter announces Federal Student Aid's online, instructor-led training sessions on NSLDS Aggregate Loan Calculation. Topics covered include calculating aggregate loan limits using the NSLDS methodology and applying that information to student eligibility decisions. This session will also discuss loan types that impact aggregate limit calculations.

(Continued on the next page.)

Dear Partner
June 2007
ANN-07-14

This letter announces Federal Student Aid's online, instructor-led training sessions on NSLDS. Topics covered include an overview of the system, how to make changes to student data, add users, how to read codes within the system as well as report overpayments and use the transfer monitoring function.

Dear Partner
June 2007
ANN-07-15

This letter announces Federal Student Aid's online, instructor-led training sessions on Expected Family Contribution (EFC) calculation training. Topics covered include calculating the EFC using all three federal methodologies, the factors that affect the EFC, and using professional judgment. This session will provide case study opportunities to calculate the EFC for a variety of students.

Dear Partner
June 2007
GEN-07-04
FP 07-08

This letter announces the approval of a new Military Deferment Request form.

LENDER LIST UPDATES

School personnel continuing to use their paper copy of MGA's "Participating Lender List" should record the following actions on the list dated May 4, 2007. Please make the appropriate changes in all sections of the list as needed.

To access the most current lender information and eliminate the need for manual updates, use the electronic version of MGA's "Participating Lender List" available at mgaloan.com. Select "Financial Aid Professionals," and then "FAA Resources." If you have any questions regarding these updates, please contact Pat Fromm at extension 36076 or via email at frommp@michigan.gov.

Newly Participating Lender

Nelnet Health Solutions, 833874, c/o Nelnet, Inc., P.O. Box 82596, Lincoln, NE 68501-2596.

Note: This lender is buying down the remaining 25 percent of the Federal Default Fee for Stafford loan borrowers.

Lender Name Change

A+ Funds MedFunds w/Wells Fargo ELT, 834040, has changed its name to Opus Educational Loans.

Joined Referral Program

Fifth Third Bank, 806078, has notified MGA that they are part of the Nelnet referral program. The address and telephone number for this lender have not changed.

UPDATED SCHOOL LIST COMING SOON

The new "Active Michigan School List" will be mailed the last week of July. You may obtain additional copies of MGA's school list by completing the *Request for MGA "In-House" Supplies* order form on our Web site at mgaloan.com. Click on "Ordering Supplies" under the Financial Aid Professionals heading or you may contact our mail room at extension 60607. If you have any questions, please contact Stacy Cardwell at extension 36074.

"Q" AND "A"

Defaults and Good Standing Letters

What happens when a borrower defaults on a Federal Stafford loan?

The road to default is lengthy. After the six-month grace period has expired, it takes at least 270 days for a borrower to default on a Federal Stafford loan. At that point the lender files a claim with the guarantor who purchases the loan within 60 days of receiving the claim. At this time, the loan is considered in default, and the borrower is no longer eligible for further financial aid. The borrower has 60 days

(Continued on the next page.)

from the actual default date to pay the loan off to avoid collection costs being added to the loan and to prevent the default from being reported to the national credit bureaus. The Michigan Guaranty Agency attempts to collect on the defaulted loan for 120 days. If MGA is unable to collect on the loan, it is turned over to an outside collection agency.

How is eligibility determined for a returning student who has defaulted? How often does a school need to verify the eligibility?

Through the process of enrollment, a financial aid office at a school will seek to certify a new loan. In looking at NSLDS, the school staff may see prior loans for a student. If the student has defaulted on a loan or loans, the school must be provided with a good standing letter for financial aid from the loan guarantor. This letter must specifically address the status of the loan or loans in question and must state the borrower is eligible for additional Title IV funds. If there are any questions regarding multiple defaulted loans and which loans are in good standing, the financial aid office should contact the guarantor.

The financial aid office must verify that the borrower is still current by either contacting the guarantor or checking NSLDS before each disbursement.

How is a good standing letter obtained?

The borrower must contact the loan holder *in writing* for a good standing letter which is mailed to the student's current address. Written requests may be delivered via mail, email (mga@michigan.gov), or fax (517-636-0655). In addition, a borrower may request a letter of good standing through MGA's Interactive Voice Response (IVR) system at 1-800-642-5626 or on the Web Advisor Web site. A link to the Web Advisor is available in the left navigation pane on our Web site at mgaloan.com.

A borrower may request to have MGA forward a copy of the letter directly to the school's financial aid office. In the written request the borrower will need to include a fax number or email address of the person at the financial aid office who should receive the letter. Please note this option is not available through the IVR system or the Web Advisor.

How does a student gain Title IV eligibility and overcome default?

To regain Title IV eligibility, there are two options. The preferred option is to have a loan rehabilitated. A borrower must make nine monthly, qualifying, voluntary on-time payments. After six months of on-time payments, a guarantor may issue a good standing letter for any loan that has been brought current. Then the student will be eligible for Title IV funds. Additionally, after nine months of on-time payments *and* if the borrower has requested rehabilitation, the guarantor will sell the loan back to the lender of record. This process takes about 60 days. At that point the loan will be put back into repayment. The default will be removed from the borrower's credit report.

Another possible avenue for the borrower is to consolidate their defaulted Federal Stafford loans with a lender. This is a much faster approach, no waiting the six to nine months for the good standing letter and the rehabilitation to be completed. The drawback to this is that the default will not be removed from the borrower's credit report because the loan had not been rehabilitated. The credit report will reflect a zero balance and paid in full by consolidation, and the default will remain on the credit report for seven years from the date of default.

If the borrower stops making payments after obtaining a good standing letter, what must the student do to regain eligibility?

To remain in good standing borrowers who have obtained a good standing letter after making six consecutive monthly payments must continue to make consecutive monthly payments until the loan is paid in full even if they are in school. Borrowers who lose eligibility by skipping a payment may not obtain another good standing letter for consecutive payments. These borrowers should contact MGA's Collections Section to either pay their loan in full or enter into a loan rehabilitation program.

Calendar of Upcoming Events

September 2007

3 MGA Offices Closed

If you need further information or wish to submit items for the calendar, please contact Jim Peterson, Editor, at extension 36944 or via email at petersonj@michigan.gov.

Federal Family Education Loan Program
Variable Rate PLUS and SLS Loan Interest Rates
July 1, 2007, through June 30, 2008

Table 3

INTEREST RATE FORMULA (T-Bill Rate + Additional Sum = Total)								
Type of Loan	**First Disbursement Made On or After**	**First Disbursement Made Before**	**91-Day Treasury Bill Rate**	**One-year Constant Maturity**	**Additional Sum**	**Total**	**Maximum Rate**	**Interest Rate for the Period of 7/01/07 – 6/30/08**
PLUS/SLS*		10/01/92		4.95%	3.25%	8.20%	12%	**8.20%**
SLS*	10/01/92 (for a period of enrollment beginning prior to 7/01/94)			4.95%	3.1%	8.05%	11%	**8.05%**
PLUS*	10/01/92	7/01/94		4.95%	3.1%	8.05%	10%	**8.05%**
PLUS	7/01/94	7/01/98		4.95%	3.1%	8.05%	9%	**8.05%**
PLUS*	7/01/98	1/01/00	4.92%		3.1%	8.02%	9%	**8.02%**
PLUS	1/01/00	7/01/06	4.92%		3.1%	8.02%	9%	**8.02%**

*** These loans will <u>not</u> be subject to special allowance payments during the four quarters ending 9/30/07, 12/31/07, 3/31/08, and 6/30/08. See Sections 438(b)(2)(C)(i); 438(b)(2)(C)(ii); 438(b)(2)(G)(v); and 438(b)(2)(H)(v) of the Higher Education Act of 1965, as amended.**